

GAO

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Committee on Armed Services, House of
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MILITARY BASE REALIGNMENTS AND CLOSURES

Estimated Costs Have Increased and Estimated Savings Have Decreased

Statement of Brian J. Lepore, Director
Defense Capabilities and Management



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Highlights of [GAO-08-341T](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) is currently implementing recommendations from the 2005 Base Realignment and Closure (BRAC) round, which is the fifth round undertaken by DOD since 1988. The 2005 round is, by GAO's assessment, the biggest, most complex, and costliest BRAC round ever, in part because, unlike previous rounds, the Secretary of Defense viewed the 2005 round as an opportunity not only to achieve savings but also to assist in transforming the department. GAO's testimony addresses (1) GAO's role in the BRAC process, and (2) how DOD's current cost and savings estimates to implement the 2005 recommendations compare to the 2005 Defense Base Closure and Realignment Commission's (the Commission) cost and savings estimates.

This testimony is based primarily on the report GAO issued yesterday (GAO-08-159) on the overall changes to DOD's cost and savings estimates for the 2005 BRAC round. To analyze these changes, GAO compared the Commission's estimates in its 2005 report to DOD's estimates in its fiscal year 2008 BRAC budget submission. This testimony is also based on several reports GAO has issued on the implementation of selected recommendations, and GAO's prior work assessing the 2005 decision-making process. GAO's work was performed in accordance with generally accepted government auditing standards.

To view the full product, including the scope and methodology, click on [GAO-08-341T](#). For more information, contact Brian J. Lepore (202) 512-4523 or leporeb@gao.gov.

December 12, 2007

MILITARY BASE REALIGNMENTS AND CLOSURES

Estimated Costs Have Increased and Estimated Savings Have Decreased

What GAO Found

GAO has played two long-standing roles in the BRAC process. First, as requested by congressional committees in the 1988 round or mandated by law since 1990, GAO has served as an independent and objective observer of the BRAC process and has assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations. GAO reported in its assessment of the 2005 round that DOD's decision-making process for developing its recommendations was generally logical, well documented, and reasoned. However, GAO identified some limitations with cost and savings estimates, some BRAC recommendations having lengthy payback periods, and some with limited savings relative to implementation costs. GAO's second role has focused on reviewing the implementation of realignment and closure actions once the BRAC recommendations became effective in November 2005. GAO has issued several reports on DOD's implementation of its 2005 BRAC recommendations. GAO will continue to review the implementation of the 2005 BRAC recommendations, including a final report to be issued within 1 year after the end of the 6-year BRAC implementation period, which ends in September 2011.

DOD plans to spend more and save less than originally estimated for the 2005 BRAC round. DOD's cost estimates to implement the 2005 recommendations, as reported in its fiscal year 2008 BRAC budget submission, have increased by 48 percent, from \$21 billion to \$31 billion, for the 6-year implementation period. Nearly two-thirds of the expected cost increase is due to increased military construction costs. For example, the expected military construction cost to close Fort Monmouth, New Jersey, has increased by more than \$550 million, largely because the Army decided to build new facilities instead of renovating existing facilities at one location and share existing facilities at another location. GAO believes there is potential for further cost increases due to uncertainty in whether the Army's new initiative designed to reduce construction costs will achieve the planned results. While projected costs have increased, projected net annual recurring savings have decreased about 5 percent, from \$4.2 billion to \$4.0 billion annually. DOD attributed the decrease in its savings estimate primarily to changes in initial assumptions or plans. GAO believes that DOD's reported savings estimates may be overstated by \$1.85 billion largely because the estimates include savings from military personnel entitlements without a corresponding reduction in end strength. As a result of the increases in costs and decreases in savings, GAO's analysis shows that accumulated savings are projected to offset accumulated costs in 2017 rather than 2013 as projected by the Commission. The time required for accumulated savings to offset accumulated costs would increase to 2025 with the exclusion of the expected savings from military personnel entitlements and Cannon Air Force Base, New Mexico, that GAO questions. While the overall payback period for DOD's BRAC recommendations is less than 20 years, the number of individual recommendations that are not expected to pay back within 20 years has increased from 30, as estimated by the Commission, to 73, based on DOD's fiscal year 2008 budget submission.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the projected costs and savings associated with implementing the 2005 Base Realignment and Closure (BRAC) round. The Department of Defense (DOD) is currently implementing recommendations from the 2005 BRAC round, which is the fifth BRAC round undertaken by DOD since 1988. Based on our work to date, the 2005 round is the biggest, most complex, and costliest BRAC round ever, in part because, unlike previous rounds, the Secretary of Defense viewed the 2005 round as an opportunity not only to achieve savings but also to assist in transforming the department. As a result, the 2005 round differs from previous rounds in terms of the number of actions, projected costs to implement the actions, and projected savings. My testimony today addresses (1) GAO's role in the BRAC process and (2) how DOD's cost and savings estimates for the 2005 round, as reported in its fiscal year 2008 BRAC budget submission, compare to the 2005 Defense Base Closure and Realignment Commission's (the Commission) cost and savings estimates.

My testimony is based largely on our report reviewing the changes to the overall cost and savings estimates associated with the 2005 recommendations, which we issued yesterday.¹ In that report we found that estimated costs to implement the 2005 BRAC round have increased and estimated savings have decreased. To analyze the changes in the estimated costs and savings, we compared the Commission's estimates, as reported in the Commission's 2005 report,² to DOD's estimates in its fiscal year 2008 BRAC budget submission. Additionally, we reported that DOD's projected net annual recurring savings may be overstated by 46 percent due to the lack of a distinction between savings from transferring military personnel from one location to another, which do not produce tangible savings outside of the military personnel account, and savings from reduced operating costs that will make funds available for other uses. We recommended that DOD better explain its net annual recurring savings; DOD concurred with this recommendation and plans to address it in its next budget submission. I will more fully discuss the findings of our cost and savings report that we released yesterday later in my statement. My

¹GAO, *Military Base Realignments and Closures: Cost Estimates Have Increased and Are Likely to Continue to Evolve*, GAO-08-159 (Washington, D.C.: Dec. 11, 2007).

²Defense Base Closure and Realignment Commission, *2005 Base Closure and Realignment Commission Report to the President* (Arlington, Va.: Sept. 8, 2005).

testimony is also based on our prior work assessing the 2005 BRAC decision-making process issued in July 2005, as statutorily required, and several reports we have issued over the past year on the implementation of selected recommendations. Our work was performed in accordance with generally accepted government auditing standards. A listing of our related products is at the end of this statement.

Summary

GAO has played two long-standing roles in the BRAC process. First, as requested by congressional committees in the 1988 round or mandated by law since 1990, we have served as an independent and objective observer of the BRAC process and have assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations. In our assessment of the 2005 round, we reported that DOD's decision-making process for developing its recommendations was generally logical, well documented, and reasoned. Our assessment of the process does not constitute endorsement of any recommendations as it was the Commission's responsibility, not ours, to approve DOD's recommendations. We identified some limitations with cost and savings estimates, some recommendations that will take longer than expected to recoup up-front costs, and some with limited savings relative to implementation costs. Our second role has focused on reviewing the implementation of realignment and closure actions once the recommendations became effective, just as we review the effectiveness and efficiency of numerous programs authorized or mandated by Congress. In addition to the report we issued yesterday, we have issued several reports on DOD's implementation of its 2005 BRAC recommendations affecting the Air National Guard, Army Reserve components, and business process reengineering in the Navy and the Defense Logistics Agency. We will continue to review DOD's implementation of the 2005 recommendations, and the House Armed Services Committee directs us to monitor and report annually on DOD's progress with a final report to be issued within 1 year after the end of the 6-year BRAC implementation period, which ends in September 2011.³

DOD plans to spend more and save less than originally estimated for the 2005 BRAC round. Based on DOD's fiscal year 2008 budget submission, DOD's cost estimates to implement the 2005 recommendations have increased by 48 percent through the 6-year implementation period, from

³H.R. Rep. No. 110-146, at 514 (2007).

\$21 billion to \$31 billion, compared to the Commission's cost estimates.⁴ Our analysis indicates that nearly two-thirds of the \$10 billion cost increase is due to increased projected military construction costs, while inflation, environmental restoration costs, and other costs, such as operations and maintenance, account for the remaining one-third of the cost increase. Six recommendations account for half of the increase in military construction costs. For example, the military construction cost to relocate the Army's armor school from Fort Knox, Kentucky, to Fort Benning, Georgia, increased by nearly \$670 million because the Army identified additional projects that were not included in the original cost estimates.⁵ Additionally, the projected military construction cost to support the relocation of personnel from Fort Monmouth, New Jersey, has increased by more than \$550 million, largely because the Army needed to build new facilities instead of renovating existing facilities at one location and build new facilities instead of sharing existing facilities at another location.⁶ Overall, we believe there is potential for further increases in construction costs due to uncertainty in whether the Army's new initiative designed to reduce construction costs will achieve the planned results. If the Army is unable to achieve these reduced costs, the effect on BRAC implementation costs could be considerable and costs would rise. While DOD's projected onetime costs have increased, projected net recurring savings as reported in DOD's fiscal year 2008 budget submission have decreased about 5 percent, from \$4.2 billion to \$4.0 billion annually, compared to the Commission's estimates.⁷ DOD attributed the decrease in its savings estimates primarily to changes in initial assumptions or plans. Based on our work to date, DOD's annual recurring savings estimate may be overstated by about 46 percent due to the inclusion of \$1.85 billion in military personnel entitlements—such as salaries and housing allowances—for military personnel that DOD plans to shift to other

⁴The Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation).

⁵The overall cost of the recommendation to relocate the Army's armor school from Fort Knox, Kentucky, to Fort Benning, Georgia, has increased by more than \$680 million.

⁶The overall cost of the recommendation to close Fort Monmouth, New Jersey, has increased by almost \$678 million.

⁷The Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation). When the effect of inflation is eliminated, DOD's estimated net annual recurring savings decreased by more than \$800 million to about \$3.4 billion—a 20 percent decrease.

positions but does not plan to eliminate. While DOD disagrees with us, we do not believe that transferring personnel to other locations produces tangible dollar savings outside the military personnel accounts that DOD can use to fund other defense priorities since these personnel will continue to receive salaries and benefits. Because DOD's BRAC budget submission does not explain the difference between net annual recurring savings attributable to military personnel entitlements, which personnel would still receive, and net annual recurring savings from reduced operating costs that would make funds available for other uses, DOD could generate a false sense that all of its reported savings could be used to fund other defense priorities. As such, we recommended in the report that we issued yesterday that DOD better explain its net annual recurring savings—a recommendation with which DOD has concurred and plans to address in its next budget submission. Finally, our analysis shows that accumulated savings are projected to offset accumulated costs in 2017—12 years after the beginning of the implementation period for the 2005 round, which is 4 years longer than the Commission's estimate of 2013. This extended payback period includes the savings estimates from military personnel entitlements and Cannon Air Force Base, New Mexico, that we question, which if excluded, would increase the time needed to recoup up-front costs still further to 19 years, or the year 2025. While DOD should reach the overall break-even point for its 2005 recommendations in less than 20 years, the number of individual recommendations that are not expected to break even within 20 years has increased from 30, as estimated by the Commission, to 73, based on DOD's fiscal year 2008 budget submission.

Background

DOD has undergone four BRAC rounds since 1988 and is currently implementing its fifth round.⁸ In May 2005, the Secretary of Defense made public more than 200 recommendations that DOD estimated would generate net annual recurring savings of about \$5.5 billion beginning in fiscal year 2012. In making its 2005 realignment and closure proposals, DOD applied legally mandated selection criteria that included military

⁸The first round in 1988 was authorized by the Defense Authorization Amendments and Base Closure and Realignment Act, as amended (Pub. L. No. 100-526, Title II, (1988)). Subsequently, additional BRAC rounds were completed in 1991, 1993, and 1995 as authorized by the Defense Base Closure and Realignment Act of 1990, as amended (Pub. L. No.101-510, Title XXIX (1990)). The latest round—BRAC 2005—was authorized by the National Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107, Title XXX (2001)).

value as the primary consideration, as well as expected costs and savings, economic impact to local communities, community support infrastructure, and environmental impact. Military value, which includes such considerations as an installation's current and future mission capabilities, condition, ability to accommodate future needs, and cost of operations, was the primary consideration for making recommendations as mandated by BRAC law and as reported by both DOD and the Commission. Additionally, the Secretary of Defense established three goals for the 2005 BRAC round: (1) transforming DOD by aligning the infrastructure with the defense strategy, (2) fostering jointness across DOD, and (3) reducing excess infrastructure and producing savings.

The 2005 round is unlike previous BRAC rounds due to the Secretary of Defense's emphasis on transformation and jointness, rather than just reducing excess infrastructure. For example, as part of its efforts to transform its forces, the Army included actions to restation forces from Europe and Korea to domestic installations, which were part of its larger review of bases worldwide. The 2005 round also differs from previous BRAC rounds in terms of the number of closure and realignment actions. While the number of major closures and realignments is a little greater than individual previous rounds, the number of minor closures and realignments is significantly greater than those in all previous rounds combined, as shown in table 1.⁹ DOD plans to execute over 800 closure and realignment actions as part of the 2005 BRAC round, which is more than double the number of actions completed in the prior four rounds combined. The large increase in the number of minor closures and realignments is primarily attributable to the more than 500 actions involving the Army National Guard and Army Reserve, representing over 60 percent of the BRAC actions.

⁹DOD defines major closures as installations recommended for closure with plant replacement value exceeding \$100 million and major realignments as installations losing more than 400 military and civilian personnel. Minor closures and realignments are those closures and realignments that do not meet the definitions above.

Table 1: Comparison of BRAC 2005 with Previous Rounds

Round	Major closures	Major realignments	Minor closures and realignments	Total actions	Costs through implementation (dollars in billions)	Net annual recurring savings (dollars in billions)
1988	16	4	23	43	\$2.7	\$0.9
1991	26	17	32	75	5.2	2.0
1993	28	12	123	163	7.6	2.6
1995	27	22	57	106	6.5	1.7
Total	97	55	235	387	\$22.0	\$7.2
2005	22 ^a	33 ^a	757 ^b	812	\$31.2 ^c	\$4.0 ^c

Source: Defense Base Closure and Realignment Commission, DOD, and GAO analysis of Commission and DOD data.

^aThe number of major realignments and closures is as reported by the Commission in 2005.

^bAn individual base may be affected by more than 1 realignment.

^cCost and savings estimates for the 2005 round are DOD's estimates as reported in the fiscal year 2008 BRAC budget submission.

Also, as shown in table 1, the 2005 round is expected to cost more to implement than all of the previous BRAC rounds combined and save more than any single round. I will discuss the projected costs and savings of the 2005 round later in my statement.

As in all previous BRAC rounds, DOD used the Cost of Base Realignment Actions (COBRA) model to provide a standard quantitative approach to compare estimated costs and savings across various proposed recommendations. The COBRA model relies to a large extent on standard factors and averages but is not intended to and consequently does not present budget quality estimates. As a result, COBRA-developed cost and savings estimates cannot be assumed to represent the actual costs that Congress will need to fund through appropriations to complete implementation of BRAC recommendations, nor will they fully reflect the savings intended to be achieved after implementation. In other words, as we reported in our review of the 1995 and 2005 BRAC rounds,¹⁰ the costs identified in COBRA are most likely to be different than the costs that DOD will actually incur and Congress will be asked to fund to complete

¹⁰GAO, *Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment*, GAO/NSIAD-95-133 (Washington, D.C.: Apr. 14, 1995) and *Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments*, GAO-05-785 (Washington, D.C.: July 1, 2005).

implementation. We have examined COBRA in the past, as well as during our review of the 2005 BRAC round, and, given the quality of the data and assumptions used in the model, found it to be a generally reasonable estimator for comparing potential costs and savings among alternative closure and realignment scenarios with the caveat that the estimates do not represent budget-quality data, as we previously reported in our assessments of the 1995 and 2005 BRAC rounds. In this and previous BRAC rounds, DOD subsequently developed budget-quality estimates after BRAC decisions were made.

The Commission was an independent body that reviewed and had the authority to change the Secretary's recommendations if it determined that the Secretary deviated substantially from the legally mandated selection criteria and DOD's force structure plan. After the Commission's review in 2005, it forwarded a list of 182 recommendations for base closures or realignments to the President. The Commission estimated that its recommendations would cost \$21 billion and generate net annual recurring savings of \$4.2 billion beginning in fiscal year 2012. The Commission's recommendations were accepted in their entirety by the President and Congress,¹¹ and became effective on November 9, 2005. The BRAC legislation requires DOD to complete closure and realignment actions within a 6-year time frame ending September 15, 2011.

GAO's Role in the BRAC Process

GAO has two long-standing roles in the BRAC process. First, as requested by congressional committees for the 1988 BRAC round and mandated by law since 1990, we have served as an independent and objective observer of the BRAC process and have assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations. The law authorizing the 2005 BRAC round required us to independently assess DOD's process and recommendations and to submit a report by July 1, 2005.¹² To make an informed and timely assessment, we operated in a real-time setting and had access to significant portions of the process as it evolved, thus affording the

¹¹The President was required to approve or disapprove the Commission's recommendations in their entirety by September 23, 2005. After they were approved, the recommendations were forwarded to Congress, which had 45 days or until the adjournment of Congress to disapprove the recommendations on an all-or-none basis; otherwise, the recommendations became binding.

¹²Pub. L. No. 107-107, Title XXX (2001).

department an opportunity to address any concerns we raised in a timely manner. From our vantage point, we were looking to see to what extent DOD followed a logical, well-reasoned, and well-documented process, where we could see a logical flow between DOD's analysis and its proposed recommendations. In our July 2005 report, we stated that DOD's decision-making process for developing its recommendations was generally logical, well documented, and reasoned.¹³ We also stated that DOD established a structured and largely sequential process for obtaining and analyzing data that provided an informed basis for identifying and evaluating BRAC options. Our conclusion does not constitute endorsement of any recommendation, as it was the Commission's responsibility, not ours, to approve DOD's recommendations. However, we identified some limitations with DOD's cost and savings estimates, some recommendations having lengthy payback periods, and some recommendations with limited savings relative to costs.

Once the recommendations become effective, our role is to review DOD's efforts to implement the realignment and closure actions, just as we routinely review the efficiency and effectiveness of congressionally mandated or authorized programs across the government. We generally do our BRAC work under the authority of the Comptroller General to conduct reviews on his own initiative because of the broad congressional interest in the base closure process, which allows us to provide information broadly and generally without restriction.¹⁴ Yesterday we issued our most recent report reviewing the changes to the overall cost and savings estimates associated with the 2005 recommendations, which I will discuss later in my statement. We have previously reported on DOD's efforts to implement recommendations affecting the Air National Guard, Army reserve components, business process reengineering efforts in the Navy

¹³GAO-05-785.

¹⁴31 U.S.C. § 717.

and Defense Logistics Agency, and environmental restoration costs.¹⁵ These reports, as well as the report we issued yesterday, show that although DOD is making progress in implementing BRAC recommendations, it is facing some implementation challenges, such as synchronizing personnel movements with planned infrastructure improvements and the need to coordinate actions among multiple services and agencies. We will continue to review DOD's implementation of the 2005 recommendations,¹⁶ and the House Armed Services Committee directs us to monitor and report annually on DOD's progress and issue a final report within 1 year after the end of the 6-year BRAC implementation period, which ends in September 2011.¹⁷

Estimated Costs Have Increased and Savings Have Decreased

DOD plans to spend more and save less than originally estimated for the 2005 round, as we discuss in the report we issued yesterday. Based on DOD's fiscal year 2008 BRAC budget submission, estimated onetime costs have increased by 48 percent through the 6-year implementation period compared to the Commission's cost estimates and could continue to increase.¹⁸ On the other hand, DOD's projected net savings have decreased about 5 percent compared to the Commission's estimates and may be overstated due to the inclusion of savings for transferring military

¹⁵GAO, *Military Base Closures: Management Strategy Needed to Mitigate Challenges and Improve Communication to Help Ensure Timely Implementation of Air National Guard Recommendations*, GAO-07-641 (Washington, D.C.: May 16, 2007); *Military Base Realignments and Closures: Plan Needed to Monitor Challenges for Completing More Than 100 Armed Forces Reserve Centers*, GAO-07-1040 (Washington, D.C.: Sept. 13, 2007); *Military Base Closures: Projected Savings from Fleet Readiness Centers Likely Overstated and Actions Needed to Track Actual Savings and Overcome Certain Challenges*, GAO-07-304 (Washington, D.C.: June 29, 2007); *Military Base Realignments and Closures: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency*, GAO-08-121R (Washington, D.C.: Oct. 26, 2007); and *Military Base Closures: Opportunities Exist to Improve Environmental Cleanup Cost Reporting and to Expedite Transfer of Unneeded Property*, GAO-07-166 (Washington, D.C.: Jan. 30, 2007).

¹⁶As part of our ongoing reviews of DOD's implementation of the 2005 recommendations, we plan to review the methodology of DOD's forthcoming report addressing human capital issues related to the closure of Fort Monmouth, New Jersey.

¹⁷H.R. Rep. No. 110-146, at 514 (2007).

¹⁸The BRAC Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation). However, when the effect of inflation is eliminated, projected costs have increased \$7.5 billion, or 36 percent.

personnel positions while continuing to pay the same salary and benefits.¹⁹ As a result, savings from the 2005 round are projected to offset costs in 2017—4 years longer than the BRAC Commission estimate. If the estimated savings from military personnel entitlements and Cannon Air Force Base, New Mexico, that we question are excluded, the round will not reach the break-even point until the year 2025.

Estimated Onetime Costs Have Increased and Could Continue to Increase

Since the BRAC Commission issued its cost and savings projections in 2005, DOD's cost estimates to implement the 2005 recommendations, as reported in DOD's fiscal year 2008 budget submission, have increased by 48 percent, from \$21 billion to \$31 billion.²⁰ The majority of the projected cost increase is due to increased military construction requirements, as shown in table 2.

Table 2: Increases in Onetime Costs

Category	Amount (dollars in millions)	Percentage
Military construction	\$6,451	64
Inflation	2,589	25
Environmental cleanup ^a	589	6
Other (including operations and maintenance)	506	5
Total	\$10,135	100

Source: GAO analysis of DOD data.

Note: Totals may not sum due to rounding.

^aAdditional environmental cleanup costs typically are incurred after the implementation period.

Two of the cost elements listed in table 2—*inflation* and *environmental cleanup*—were intentionally not considered in the initial estimates

¹⁹The BRAC Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation). However, when the effect of inflation is eliminated, projected net annual recurring savings have decreased about \$800 million, or 20 percent.

²⁰The BRAC Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation). However, when the effect of inflation is eliminated, projected costs have increased \$7.5 billion, or 36 percent.

produced by COBRA. Inflation, which accounts for 25 percent of the increase, was not included in the Commission's analysis because costs were presented in constant dollars.²¹ Further, expected environmental cleanup cost estimates, which account for about 6 percent of the cost increase, were not included in the Commission's analysis because DOD has had a long-standing policy of not considering environmental cleanup costs in its BRAC decision making. We have agreed with DOD's position that such costs are a liability to DOD regardless of its base closure recommendations. Some environmental restoration may be necessary to protect human health and safety, whether or not a base is closed. While such costs are not included in the COBRA model, they are included in developing BRAC implementation budgets and recorded as a BRAC cost. We reported in January 2007 that environmental cleanup costs are likely to increase and Congress does not have full visibility over the total expected cost of DOD's BRAC-related environmental cleanup efforts.²²

A limited number of recommendations account for the majority of the increase in military construction costs. Specifically, six recommendations associated with moving activities from leased space to military installations, closing and realigning Army installations, and realigning medical activities account for half of the increase in military construction costs:

- **Activities in leased space:** The military construction cost for the recommendation to consolidate the National Geospatial-Intelligence Agency at Fort Belvoir, Virginia, has increased by nearly \$350 million, in part because the agency identified the need for additional supporting facilities, such as a technology center and additional warehouse space.²³ Likewise, the military construction cost for the recommendation to move various DOD activities from leased space to Fort Belvoir and Fort Lee, Virginia more than doubled to nearly \$1 billion, an increase of more than \$500 million, largely because of changes to facilities at the receiving

²¹The increase in costs due to inflation occurred because the Commission presented its estimates using constant fiscal year 2005 dollars, which does not include the effects of projected inflation, whereas DOD's budgeted estimates were presented in current dollars because budget requests take into consideration projected inflation.

²²GAO-07-166.

²³The overall cost for the recommendation to consolidate the National Geospatial-Intelligence Agency at Fort Belvoir, Virginia, has increased by about \$974 million.

locations.²⁴ For example, DOD determined a parking garage, rather than a parking lot, was needed to accommodate the increase in personnel at Fort Belvoir, which increased the original estimate of \$3 million to \$160 million.

- **Closing and realigning Army installations:** The military construction cost for the recommendation to relocate the Army's armor school from Fort Knox, Kentucky, to Fort Benning, Georgia, to support the creation of a maneuver school has increased by nearly \$670 million—98 percent of the total increase in onetime costs for this recommendation—largely because the Army identified about \$400 million in additional projects that were not originally included in the cost estimates, such as training ranges, medical facilities, and a child development center, as well as \$280 million in infrastructure support, such as water, sewer, and gas lines.²⁵ Further, the military construction cost for the recommendation to close Fort Monmouth, New Jersey has more than doubled to almost \$1 billion—an increase of more than \$550 million—due to the need to build new facilities rather than renovate existing facilities at Aberdeen Proving Ground, Maryland, (\$375 million) and build new facilities rather than share facilities at West Point, New York, to accommodate the U.S. Army Military Academy Preparatory School (\$175 million).²⁶
- **Realigning medical activities:** The military construction cost for the recommendation to realign the Walter Reed Army Medical Center in the District of Columbia and relocate medical care functions to the National Naval Medical Center, Bethesda, Maryland, and Fort Belvoir, Virginia, has increased by almost \$440 million to over \$1 billion, largely because of additional facilities needs, such as a parking structure and a larger addition to the medical center, that were not included in the original estimate.²⁷ Likewise, the military construction cost for the recommendation to consolidate medical enlisted training and establish the San Antonio Regional Medical Center at Fort Sam Houston, Texas, has

²⁴The overall cost of the recommendation to move various DOD activities from leased space to Fort Belvoir and Fort Lee, Virginia, has increased nearly \$600 million.

²⁵The overall net cost of the recommendation to relocate the Army's armor school from Fort Knox, Kentucky, to Fort Benning, Georgia, has increased by more than \$680 million.

²⁶The overall cost of the recommendation to close Fort Monmouth, New Jersey, has increased by almost \$678 million.

²⁷The overall cost of the recommendation to realign the Walter Reed Army Medical Center in the District of Columbia and relocate medical care functions to the National Naval Medical Center, Bethesda, Maryland, and Fort Belvoir, Virginia, has increased by nearly \$700 million.

increased by almost \$540 million, largely because planning officials identified requirements to move inpatient care functions that were not in the original estimate.²⁸ Additionally, DOD determined that more instructional and laboratory space was required to accommodate the increased number of students expected to receive medical training at Fort Sam Houston. The number of students expected to attend the center annually was underestimated by more than 2,700 students, or 44 percent.

Based on our analysis, the projected costs for the 2005 round could continue to increase because of uncertainty over U.S. Army Corps of Engineers efforts to reduce construction costs by 15 percent. The Army has already incorporated a 15 percent reduction into a majority of its BRAC construction estimates based on the U.S. Army Corps of Engineers' efforts to reengineer its process to manage and contract for military construction projects and budgeted accordingly. While U.S. Army Corps of Engineers officials expressed optimism that these cost savings will be realized and preliminary results are promising, these results are based on limited experience.²⁹ In September 2007 we reported that the Army could be challenged in realizing the cost savings from this transformation effort.³⁰ If the Army is unable to achieve its projected 15 percent savings overall, the effect on overall BRAC construction costs could be considerable because the Army is expected to incur 60 percent (\$12 billion) of the estimated BRAC construction costs.

Moreover, BRAC implementing officials expressed concern that construction costs have the potential to increase in areas such as San Antonio, Texas, and the National Capital Region, Washington, D.C., that are already experiencing high commercial construction demands. DOD estimates it will cost about \$3.4 billion for BRAC-related construction in the National Capital Region and about \$1.3 billion in San Antonio, Texas, alone. U.S. Army Corps of Engineers officials expressed concern about the effect construction demand might have on bid proposals given the sizable amount of construction to take place in a limited amount of time to meet the BRAC statutory completion time frame. The large volume of

²⁸The overall cost for the recommendation to consolidate medical enlisted training and establish the San Antonio Regional Medical Center at Fort Sam Houston, Texas, has increased by about \$550 million.

²⁹The U.S. Army Corps of Engineers initiated five construction projects in 2006, all of which were awarded under its price limit.

³⁰GAO-07-1040.

anticipated BRAC construction combined with ongoing reconstruction due to damage from Hurricane Katrina could also lead to increased construction costs, according to service officials from various installations.

Annual Savings Have Decreased and May Be Overstated

After DOD has implemented the 2005 BRAC recommendations, based on estimates in its fiscal year 2008 BRAC budget submission, DOD expects to save about \$4.0 billion annually—a 5 percent decrease from the \$4.2 billion the Commission estimated.³¹ DOD attributed the decrease in its savings estimate primarily to changes in initial assumptions or plans. For example:

- \$80 million decrease in the estimated savings to close three chemical demilitarization depots,³² largely because the Army does not expect to close these facilities within the BRAC statutory implementation time frame because DOD must complete the chemical demilitarization mission first to comply with treaty obligations before these facilities can close and completion necessitates these facilities to remain open after 2011. We raised this issue in our July 2005 assessment of the 2005 round.³³
- \$70 million decrease in the estimated savings of establishing joint bases at multiple locations, largely because the Army did not include its share of the expected savings due to unresolved issues concerning joint base operations, while the other services included the COBRA-generated savings in DOD's fiscal year 2008 budget submission.
- \$50 million decrease in the estimated savings for realigning the Defense Logistics Agency's supply, storage, and distribution network, largely because of the need to retain higher inventory levels than anticipated and less personnel elimination.

While a better, more precise estimate of net annual recurring savings for the 2005 round may not be known until 2012, based on our work to date

³¹The BRAC Commission reported its estimates in constant fiscal year 2005 dollars (i.e., excludes projected inflation), while DOD reported BRAC estimates in the fiscal year 2008 President's budget submission in current dollars (i.e., includes projected inflation). However, when the effect of inflation is eliminated, projected net annual recurring savings have decreased about \$800 million, or 20 percent.

³²The three chemical demilitarization depots are Deseret Chemical Depot, Utah; Newport Chemical Depot, Indiana; and Umatilla Chemical Depot, Oregon.

³³GAO-05-785.

we believe that the net annual recurring savings estimates included in DOD's fiscal year 2008 budget submission may be overstated by 46 percent because DOD's estimates include (1) \$1.85 billion in estimated savings from military personnel entitlements without a corresponding reduction in end strength, with personnel continuing to receive pay and benefits accounted for as savings, (2) \$60 million from closing Cannon Air Force Base, New Mexico, although the base will actually remain open, and (3) erroneously reporting \$25 million in onetime savings as annual recurring savings for the recommendation to establish fleet readiness centers.

DOD's estimated annual recurring savings resulting from BRAC may be overstated by about 46 percent. About \$2.17 billion of DOD's total estimated annual recurring savings of about \$4 billion is due to eliminated overhead expenses such as the costs to operate and maintain closed or realigned bases that will no longer be operated or maintained by DOD and reductions in civilian salaries for positions that are eliminated, which will free up funds that DOD can then use for other defense priorities. However, DOD's annual recurring savings estimate also includes \$1.85 billion in military personnel entitlements—such as salaries and housing allowances—for military personnel that DOD plans to shift to other positions rather than eliminate. DOD considers these savings because they allow DOD to transfer these military personnel to other positions. We agree that transferring military personnel to other positions may enhance capabilities and allow DOD to redirect freed up resources to another area of need. However, while DOD disagrees with us, we do not believe that such transfers produce a tangible dollar savings that DOD can apply to fund other defense priorities outside the military personnel accounts because these personnel will remain in the end strength and will continue to receive salaries and benefits. Because DOD's BRAC budget submission does not explain the difference between net annual recurring savings attributable to military personnel entitlements for personnel that will continue to receive pay and benefits and net annual recurring savings from no longer operating and maintaining closed bases that will make funds available for other uses, DOD could generate a false sense that all of its reported savings could be used to fund other defense priorities. As such, in the report we issued yesterday, we recommended that DOD explain its estimated savings to Congress, thus providing more transparency over these savings. DOD concurred with our recommendation and has stated that it will take action to address our recommendation in its next BRAC budget submission.

Additionally, DOD claimed about \$60 million in annual recurring savings for closing Cannon Air Force Base, New Mexico, although the base will

actually remain open to support a new mission.³⁴ DOD recommended closing Cannon in its May 2005 submission to the Commission. However, in September 2005, the Commission recommended closing Cannon unless the Secretary of Defense identified a new mission for the base by December 31, 2009, and relocated the base's fighter wing elsewhere. Subsequently, DOD announced in June 2006 that Cannon would remain open and some Air Force Special Operations units would relocate to Cannon. Nevertheless, DOD still reported about \$60 million in annual recurring savings for categories such as base operation and facilities maintenance. Officials at the Air Force BRAC office told us that they claimed these savings because they disestablished the fighter wing at Cannon.³⁵ We are currently reviewing the implementation of this recommendation and plan to issue a report in January 2008.

Finally, in June 2007 we reported that the Navy erroneously reported \$25 million in onetime savings associated with inventory reductions as annual savings in the recommendation to establish fleet readiness centers.³⁶ DOD officials agreed with our analysis and agreed to update their savings estimate.

³⁴DOD also claimed nearly \$200 million in annual savings for military personnel entitlements for closing Cannon Air Force Base, which is included in the \$1.85 billion mentioned above.

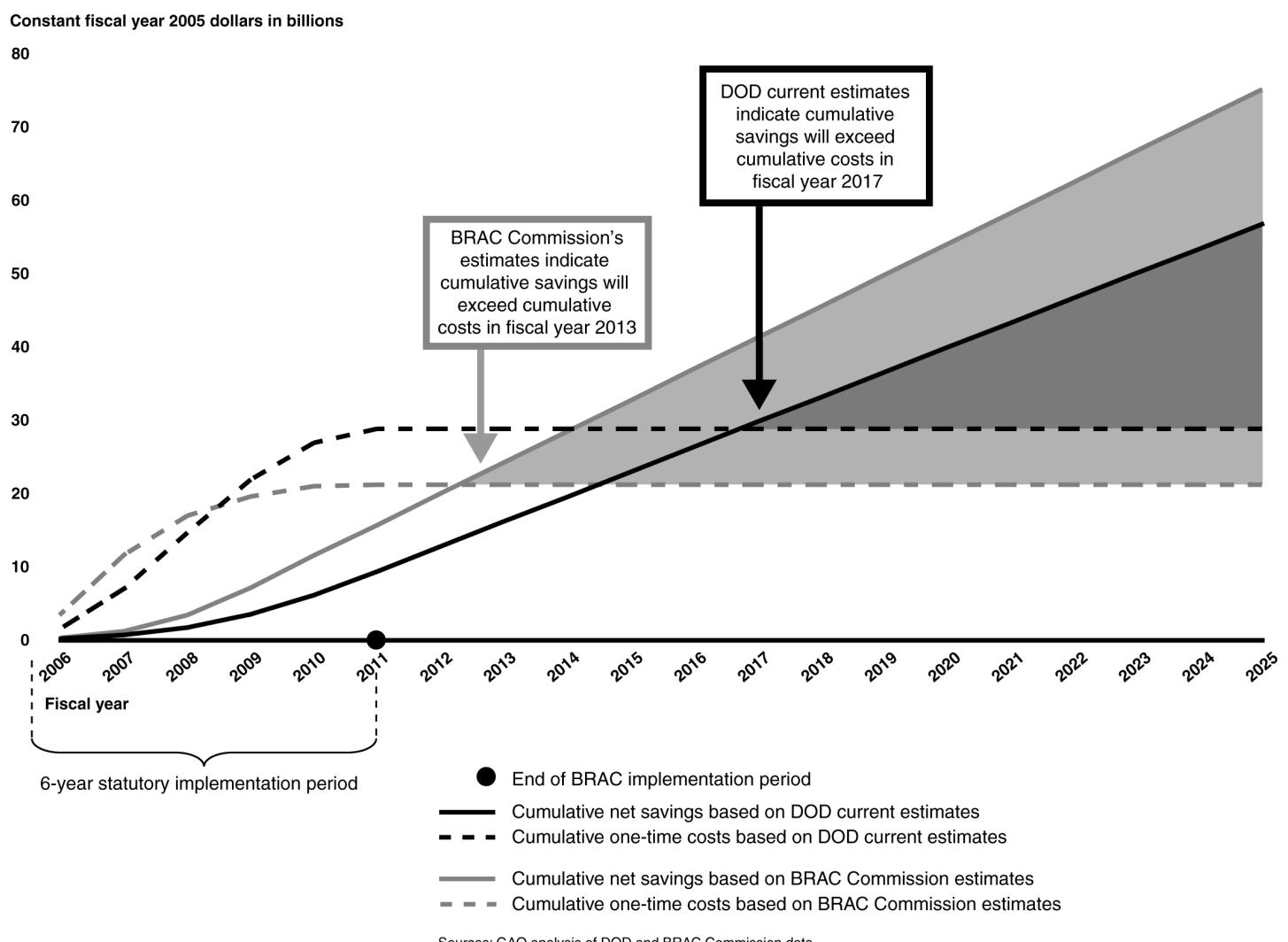
³⁵In commenting on a draft of the report we issued yesterday, the Air Force BRAC office stated that it claimed these savings because the decision to reallocate Air Force resources and mission to Cannon was made after the BRAC recommendation was approved and was, therefore, a non-BRAC programmatic decision.

³⁶[GAO-07-304](#).

DOD Will Take Longer to Recoup Up-Front Costs

As a result of the increasing costs and decreasing savings for the 2005 BRAC round, our analysis of the Commission's cost and savings estimates and DOD's estimates included in its fiscal year 2008 budget submission shows that the time required to recoup up-front investment costs, also called the payback period, has lengthened from 8 years, initially breaking even in 2013 to 12 years, breaking even in 2017, as shown in figure 1.

Figure 1: Comparison of Time to Recoup BRAC Costs Using the Commission's and DOD's Fiscal Year 2008 Budget Estimates



This extended payback period includes the savings estimates that we question. When the estimated savings from military personnel entitlements and Cannon Air Force Base, New Mexico, are removed, the payback period increases to 19 years, breaking even in 2025. In prior rounds, it has taken DOD about 6½ years to recoup up-front costs for implementing BRAC actions.

While the overall payback period for DOD's BRAC recommendations is less than 20 years, our analysis showed that, as a result of increasing costs and decreasing savings, the number of recommendations that do not pay back within 20 years increased from 30 recommendations in the Commission's report to 73 recommendations in DOD's fiscal year 2008 budget request. (See app. I for a listing of these recommendations.) About half of these recommendations primarily involve closing or realigning National Guard or Reserve facilities and nearly 20 percent primarily involve closing or realigning active duty Army installations. In our July 2005 report we noted that DOD officials acknowledged that the additional objectives of fostering jointness and transformation had some effect on generating recommendations with longer payback periods.³⁷ Our analysis indicates there were a total of 6 recommendations that did not pay back within 20 years for the three most recent BRAC rounds, in contrast to the 73 that do not pay back in 20 years in the 2005 round.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or any members may have at this time.

Contact and Acknowledgments

For further information regarding this statement, please contact Brian J. Lepore at (202) 512-4523. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. GAO staff making major contributions to this testimony are included in appendix II.

³⁷ GAO-05-785.

Appendix I: BRAC Recommendations DOD Expects Not to Pay Back over a 20-Year Period (Fiscal Years 2006 through 2025)

The 2005 Defense Base Closure and Realignment Commission (the Commission) estimated that 30 recommendations would not pay back—meaning recoup up-front costs—within 20 years. Our analysis of the Department of Defense's (DOD) fiscal year 2008 Base Realignment and Closure (BRAC) budget submission shows that 73 recommendations will not pay back within 20 years. Table 3 shows a list of these 73 recommendations, the Commission's reported estimates, and DOD's estimates of the 20-year cost. Positive dollar amounts indicate a cost, while negative dollar amounts, shown in parentheses, indicate a savings.

Table 3: BRAC Recommendations DOD Expects Not to Pay Back over a 20-Year Period (Fiscal Years 2006 through 2025)

Constant fiscal year 2005 dollars in millions

Recommendation	Commission's reported 20-year net present value estimates ^a	DOD's fiscal year 2008 budget 20-year net present value estimates ^a
Realign Operational Army (Integrated Global Presence and Basing Strategy)	\$7,846.70	\$5,833.87
Realign Fort Hood, TX	980.40	1,671.42
Close National Geospatial-Intelligence Agency leased locations and realign others at Fort Belvoir, VA	(535.10)	1,376.91
Realign Fort Bragg, NC	639.16	704.00
Realign to establish Joint Strike Fighter initial joint training site at Eglin Air Force Base, FL	226.30	504.47
Establish San Antonio Regional Medical Center and realign enlisted medical training to Fort Sam Houston, TX	(476.20)	468.00
Realign Martin State Air Guard Station, MD	353.66	430.00
Co-locate miscellaneous OSD, defense agency, and field activity leased locations	(256.41)	358.51
Co-locate military department investigation agencies with DOD Counterintelligence and Security Agency at Marine Corps Base Quantico, VA	(166.36)	206.82
Consolidate correctional facilities into joint regional correctional facilities	(11.22)	167.36
Co-locate miscellaneous Air Force leased locations and National Guard Headquarters leased locations	(308.18)	162.62
Realign Great Falls International Airport Air Guard Station, MT	7.23	155.24
Realign Otis Air National Guard Base, MA, and Lambert-St. Louis International Airport Air Guard Station, MO	(305.40)	148.29
Realign to create joint centers of excellence for chemical, biological, and medical research and development and acquisition	(39.54)	138.20
Reserve Component Transformation, NY	46.50	97.16
Realign March Air Reserve Base, CA	(6.10)	92.88
Co-locate defense and military department adjudication activities	(11.30)	87.88
Reserve Component Transformation, MA	60.40	80.37
Relocate miscellaneous Department of the Navy leased locations	(164.68)	79.55

Constant fiscal year 2005 dollars in millions

Recommendation	Commission's reported 20-year net present value estimates ^a	DOD's fiscal year 2008 budget 20-year net present value estimates ^a
Reserve Component Transformation, AR	38.20	79.15
Realign Nashville International Airport Air Guard Station, TN	261.30	60.46
Realign to relocate undergraduate pilot and navigator training	(174.20)	50.11
Relocate Army headquarters and field operating activities	(122.90)	48.46
Reserve Component Transformation, OH	1.30	47.46
Realign Naval Station Newport, RI	(2.10)	43.29
Close Deseret Chemical Depot, UT	(407.45)	39.72
Realign to create an integrated weapons and armaments specialty site for guns and ammunition at Picatinny Arsenal, NJ	(51.78)	38.06
Reserve Component Transformation, TX	(133.20)	37.08
Realign Defense Intelligence Agency functions	(52.80)	35.47
Realign Bradley International Airport Air Guard Station, CT	(17.78)	34.82
Reserve Component Transformation, WY	9.00	32.71
Reserve Component Transformation, OR	19.80	31.97
Reserve Component Transformation, VT	41.70	29.54
Reserve Component Transformation, IN	6.10	27.20
Consolidate media organizations into a new agency for media and publications at Fort Meade, MD	(89.00)	26.93
Reserve Component Transformation, MN	17.10	26.93
Reserve Component Transformation, CT	47.50	26.01
Reserve Component Transformation, IL	(6.50)	24.54
Reserve Component Transformation, OK	(63.80)	22.82
Realign Niagara Falls Air Reserve Station, NY	1.19	22.65
Realign to relocate Army Prime Power School training at Fort Leonard Wood, MO	(0.80)	22.05
Realign to establish centers for rotary wing air platform Development, and Acquisition, Test and Evaluation Center at Patuxent River, MD and Redstone Arsenal, AL	11.80	20.53
Realign to establish centers for fixed wing air platform research, development, and acquisition, test and evaluation at Wright Patterson Air Force Base, OH and Naval Air Weapons Station China Lake, CA	(17.90)	17.71
Reserve Component Transformation, PR	(8.60)	15.75
Realign Portland International Airport Air Guard Station, OR	19.93	14.80
Realign Capital Airport Air Guard Station, IL	(1.62)	14.47
Realign Andrews Air Force Base, MD	(69.98)	13.95
Realign Mansfield-Lahm Air Guard Station, OH	(79.57)	13.57
Realign Naval Shipyard Detachments	(20.70)	11.68
Realign Rock Island Arsenal, IL	(13.80)	11.68

Constant fiscal year 2005 dollars in millions

Recommendation	Commission's reported 20-year net present value estimates ^a	DOD's fiscal year 2008 budget 20-year net present value estimates ^a
Realign to establish joint center for religious training and education at Fort Jackson, SC	(11.90)	9.63
Realign to consolidate ground vehicle development and acquisition in a joint center at Detroit Arsenal, MI	(17.10)	8.93
Close Umatilla Chemical Depot, OR	(347.88)	8.60
Realign Fairchild Air Force Base, WA	(6.74)	8.56
Realign Hector International Airport Air Guard Station, ND	(12.92)	8.02
Reserve Component Transformation, MT	4.30	7.87
Relocate Air Force Real Property Agency	(7.90)	7.83
Reserve Component Transformation, ND	8.00	7.10
Realign Ellington Field Air Guard Station, TX	(2.71)	6.33
Close Navy Supply Corps School Athens, GA	1.36	5.19
Close W.K. Kellogg Airport Air Guard Station, MI	(11.16)	4.50
Close Newport Chemical Depot, IN	(132.61)	4.10
Realign Ship Intermediate Maintenance Activity Norfolk, VA	(104.30)	3.99
Realign Key Field Air Guard Station, MS	(2.56)	3.92
Reserve Component Transformation, DE	0.90	3.71
Realign to create an air integrated weapons and armaments research, development, and acquisition, test and evaluation center at Eglin Air Force Base, FL	(17.90)	3.65
Realign Springfield-Beckley Municipal Airport Air Guard Station, OH	(5.41)	2.72
Reserve Component Transformation, CA	(46.00)	2.41
Reserve Component Transformation, TN	1.10	1.93
Realign Boise Air Terminal Air Guard Station, ID	(57.04)	1.78
Realign to consolidate sea vehicle development and acquisition to Naval Surface Warfare Center Carderock Division, MD, and Naval Sea Systems Command, DC	(2.00)	1.32
Realign Officer Training Command, Naval Air Station Pensacola, FL	(7.61)	0.35
Realign Single Drill Sergeant School to Fort Jackson, SC	(31.35)	0.12

Source: Commission and DOD data.

Note: Shaded recommendations were estimated by the Commission to not pay back within the 20-year period. In addition to the recommendations included in the table, the Commission reported that the following recommendations would not pay back within the 20-year period: Reserve Component Transformation, NH; Realign Army Reserve Command and Control – Southwest; Realign Fort Smith Municipal Airport Air Guard Station, AR; Realign Beale Air Force Base, CA; and Close Navy Broadway Complex, San Diego, CA. With the exception of the recommendation to close Navy Broadway Complex, which is not included in DOD's fiscal year 2008 BRAC budget submission, DOD estimates that these recommendations will pay back within 20 years in its fiscal year 2008 BRAC budget submission.

^aPositive dollar amounts indicate an estimated cost over the 20-year period. Negative dollar amounts, shown in parentheses, indicate an estimated savings over the 20-year period.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Brian J. Lepore, (202) 512-4523 or leporeb@gao.gov.

Acknowledgments

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